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The ESG impact on corporate financial performance in developing countries: A systematic literature review

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Abstract

Corporate Environmental, Social and Governance (ESG) practices have drawn significant academic interest over the last decade. While an extensive part of ESG literature investigates the relationship with corporate financial performance (CFP), most studies have focused on developed countries. This review analyzes the empirical evidence around four key aspects of the ESG CFP relationship in developing countries. Furthermore, this review reveals four evident research gaps and sheds light on two notable ESG research limitations in developing countries.

We conducted the review using a systematic approach for constructing the article collection. We analyzed a collection of empirical articles discussing the relationship between ESG and CFP that were extracted from the Web of Science database. It is of interest to note that the articles available on the Web of Science databases are generally available on other research databases such as Scopus.

This review shows that while most studies in developed countries indicate a positive relationship, the evidence around ESG and CFP in developing countries remains fragmented. Hence, this review confirms the need for further research in developing countries in more convergent directions.

ESG-related reviews have mainly addressed literature about developed countries. To the best of the authors' knowledge, this is the first review addressing the ESG impact on CFP in the context of developing countries.

The extracted articles were gathered from the Web of Science database for its extensive journal coverage as of May 2021. The authors acknowledge that there may be further articles on the topic which were not available on the Web of Science database as of the research date.

Keywords: ESG, Environmental Social Governance, Corporate Financial Performance, Emerging countries, Literature review.

JEL Classification: G3

Paper type: Theoretical Research

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1. Introduction

Corporations worldwide have a significant role to play in achieving sustainable development goals set by the United Nations' Principles for Responsible Investment (Principles for Responsible Investment, 2017). Given the increasing importance of sustainability commitment, corporate actions must positively impact society and the world. Environmental, Social, and Governance (ESG) practices are strong indicators of corporate socially responsible behaviour. In fact, corporate ESG performance has increasingly attracted high-level policymakers' attention over the last decade. An example of this growing interest is the introduction of mandatory ESG disclosure by capital market regulators in countries such as the UK, Japan, and several European countries.

However, the interest in ESG is more prominent in developed countries while developing countries are still progressively assessing this emerging phenomenon. A diverse set of factors may be at the roots of this gap. First, it is interesting to note that developed countries have had a more significant impact on the environment through their early industrialization. On the other hand, capital markets in developed countries enjoy a higher maturity and more investment flows. Consequently, the investor demand for comprehensive ESG data is more important for corporations in developed countries than developing markets.

A common question that academics have been investigating in ESG literature is the impact on Corporate Financial Performance (CFP). The controversy around this topic lies behind the two theories defending a contrasted view of corporations' role in the society. First, the shareholder theory states that a company's ultimate objective is to maximize shareholders' profits (Friedman, 1970). Under Friedman's shareholder theory, ESG practices come at the company's expense without any noticeable return to the shareholders, resulting in a negative effect on CFP. The opposing stakeholder theory (Freeman, 1984) supports a positive association between ESG and CFP, mainly driven by firms' ability to maximize shareholders' profits while protecting stakeholders' interests. Based on the arguments of the stakeholder theory, protecting stakeholders' interests improves CFP by increasing employee productivity, enhancing competitiveness, and reducing operational risks.

While a significant body of ESG literature indicated a positive association between ESG and CFP (Clark et al., 2014; Friede et al., 2015; Margolis & Walsh, 2001; Schröder, 2014), most studies have focused on corporations in developed countries. Hence, this positive association between ESG and CFP in developed countries is still hard to generalize to developing countries where cultural differences may lead investors and corporations to a different perception of sustainability practices.

As a contribution to the expanding body of ESG literature, this review aims to shed light on empirical evidence investigating four facets of the ESG CFP relationship in developing countries. A suited methodology for this is the systematic literature review. Using a rigorous, replicable approach, we extracted 32 articles from the Social Sciences Citation Index available on the Web of Science database. We performed full-text analysis of the extracted articles to deepen insights on the ESG CFP relationship in developing countries and identify unexplored research patterns.

This review is organized as follows. The first section presents the methodological approach used by the authors to conduct the review. The second sets out the results of the bibliometric analysis performed in the article collection. The third section discusses the evidence around four most discussed facets of the ESG CFP relationship in the reviewed articles. The fourth section highlights four identified research gaps within the reviewed articles. The fifth section discusses limitations to ESG studies in developing countries. The review concludes by emphasizing the importance of developing ESG CFP literature in developing in more convergent directions.

2. Review Methodology

Systematic literature review is a widely used approach by scholars to gather evidence from the existing literature on a specific topic and identify its limitations (Xiao & Watson, 2019). In order to systematically review the body of work about the ESG CFP relationship in developing countries, we searched the Web of Science database. Articles examined in this review were extracted from academic journals listed in the Social Sciences Citation Index available on the Web of Science database given its comprehensive coverage (Daugaard, 2020).

The concept of ESG can be linked with numerous finance-related topics. To perform the review, we focus on articles studying the impact of ESG on Corporate Financial Performance rather than the literature on Socially Responsible Investing (Gillan et al., 2021).

We adopted a five-step procedure as presented in figure 1 to collect the reviewed articles. We performed the search on May 29, 2021, using two sets of keywords: (i) ESG keywords and (ii) Corporate Financial performance (CFP) keywords (See Table 1). ESG keywords were adapted from previous ESG academic reviews (Drempetic et al., 2020; Friede et al., 2015; Margolis et al., 2009; Orlitzky et al., 2003). The CFP keywords set was extracted from a collection of empirical articles studying the ESG CFP relationship (Alareeni & Hamdan, 2020; Buallay, 2019; Sassen et al., 2016). To clearly outline the scope of the review, we used the Boolean search operator “AND” to combine

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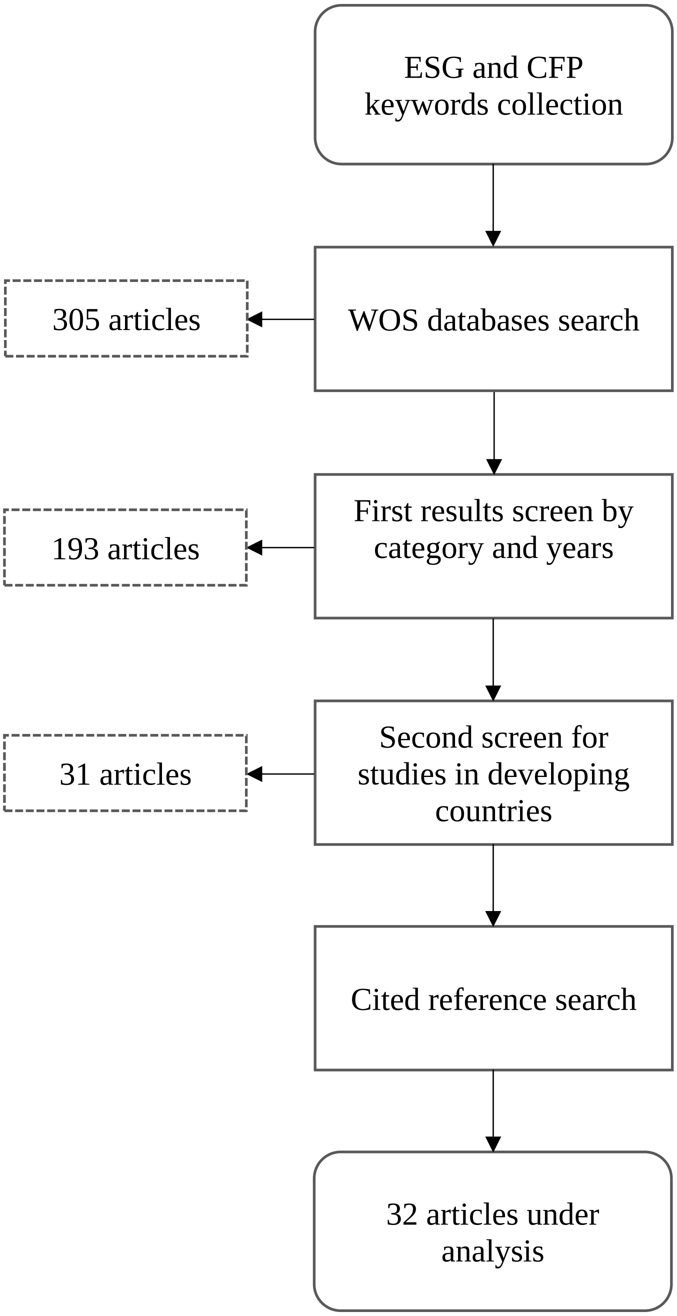
ESG keywords with CFP keywords. Finally, we used the Boolean operator "OR" to construct a comprehensive research query comprising all the resulting combinations from the previous step.

Figure 1 *Research Process for constructing the article collection*



Source: *Authors*

Second, we narrow the search results by screening for time, type of publication, and category. We refined the search results for articles published between 2000 and May 2021 in the "Business", "Management" and "Business Finance" categories. Moreover, we manually screen the results for the country of study by considering articles studying the ESG CFP relationship in developing countries. We define developing countries as the 53 countries listed in the MSCI Emerging Markets Index and MSCI Frontier Markets Index as of April 30, 2021. The screening process was performed based on the article title, abstract and keywords.

Table 1 *Keywords used in the research query*

ESG Keywords	**CFP Keywords**
ESG[1]	Corporate financial performance
ESG factors	Financial performance
ESG Performance	Firm value
Environmental Social Governance	Firm performance
CSR[2]	CFP[3]
Corporate Social Responsibility	-

Source: *Authors*

Using HistCite software 12.03.17, we performed a cited reference search to confirm that all important articles relating to the review topic were captured. Among the top 25 cited articles, we identified an additional relevant article exploring the ESG CFP relationship in developing countries. This article was manually added to the review collection.

The final collection comprises 32 articles published between 2014 and May 2021 that were analyzed by the authors in-depth by reading the full text.

3. Bibliometric analysis

To draw up an overview of the article collection, we performed bibliometric analysis using HistCite 12.03.17, similar to previous ESG-related reviews (Daugaard, 2020; Widyawati, 2020). We used HistCite to reveal the bibliometric features of our article collection and facilitate the analysis (Garfield, 2009). Figure 2 reflects the amounting academic interest in the ESG CFP relationship in developing countries over the last seven years. It is interesting to note that the highest number of articles from the collection was

[1] *ESG, Environmental Social and Governance;*
[2] *CSR, Corporate Social Responsibility;*
[3] *CFP, Corporate Financial Performance;*

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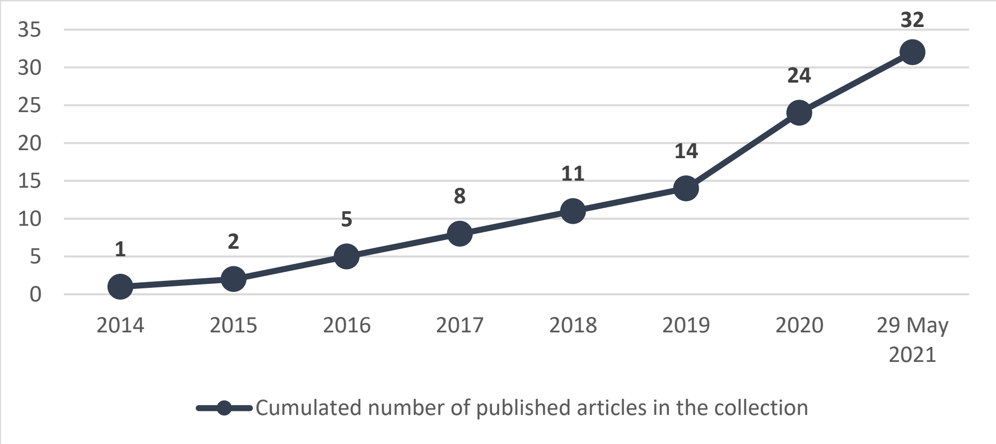
published in 2020. This shows an increasing recent interest in the ESG CFP relationship in developing countries.

Figure 2 *Cumulated number of published articles addressing the ESG CFP relationship in developing countries*



Source: *Computed by the authors from HistCite*

To identify the most discussed facets of the ESG CFP relationship in developing countries, we performed a full-text analysis of the resulting 32 articles. To ensure that all the significant themes were captured, we manually compared articles to identify similarities and differences. We raised four most discussed aspects of the ESG CFP relationship performing full-text analysis of the articles: (i) the direction of the ESG CFP relationship in developing countries (ii) factors influencing the ESG CFP relationship (iii) ESG disclosure in developing countries, and (iv) ESG and firm risk. The following sections explore the empirical evidence relating to these four themes and reveal four identified research gaps within the reviewed literature.

4. Significant themes

4.1. The direction of the ESG CFP relationship in developing countries:

A significant part of ESG literature explores the bi-directional nature of the ESG CFP relationship. This theme is founded on the opposing stakeholder and shareholder theories' view of corporations' role with regard to their stakeholders. Most of the research around this theme focuses on investigating the link between corporate ESG quantitative metrics and financial performance indicators over different time spawns.

The extensive body of research addressing the ESG CFP relationship has produced mixed results in developed countries. In line with the conclusions of Friede et al. (2015) and Margolis and Walsh (2001) who reviewed a comprehensive number of ESG CFP studies in developed countries, we present many studies from our review collection reporting a positive ESG CFP association (Arayssi & Jizi, 2019; Bodhanwala & Bodhanwala, 2018; Chauhan & Kumar, 2018; Gao & Han, 2020).

One of the earlier studies by Weber (2014) on Chinese corporations demonstrated a positive effect of corporate ESG reporting on financial market returns. Researchers later extended this type of research to find similar results in other developing countries. In particular, Chauhan & Kumar (2018) later demonstrated a positive effect of ESG disclosure for Indian public companies facing information issues. These conclusions suggest a significant effect of ESG disclosure independently of actual corporate ESG actions in developing countries. This may be explained, among others, by the high information asymmetry observed for ESG data in developing countries.

Researchers have also provided evidence of a positive impact of actual ESG practices on CFP in developing countries. A comprehensive study by Bodhanwala and Bodhanwala (2018) on public Indian firms showed that ESG compliant firms enjoy higher long-term profitability than non-compliant ones. In Egypt, Aboud and Diab (2019) demonstrated that ESG performance positively affects CFP. Aboud and Diab suggested that this positive effect was more significant after the political events in the country, potentially due to the change in ESG perception brought by the political transformations. Hence, it might be interesting to extend this line of research and explore the possible impact of political changes in the ESG CFP relationship in developing countries.

Some of the reviewed studies have also analyzed the impact of the three ESG dimensions on CFP separately (Garcia et al., 2017; Lee et al., 2016). Among studies reporting a positive impact of standalone ESG dimensions, Lee et al. (2016) provided evidence of a positive link between environmental performance and firms' financial metrics over the 2011-2012 period in Korea. In the same line of research, Garcia et al. (2017) studied the effect of the environmental factor on CFP using a comprehensive sample of 365 corporations from multiple developing countries. In contrast with the previous findings, Garcia et al. reported a negative association between environmental performance and CFP in their results.

In fact, a significant number of reviewed articles also report a negative effect of ESG performance on CFP in developing countries (Duque-Grisales & Aguilera-Caracuel, 2021; Garcia & Orsato, 2020). For instance, Garcia and Orsato (2020) observed a sample of firms from Brazil and South Africa to find the same negative effect on firms’ accounting-based financial performance. Interestingly, Garcia and Orsato showed that the relationship's direction changes when using firms from developed countries and becomes positive. This finding corroborates the underlying assumption of a difference in ESG perception between developed and developing countries, leading to a different

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impact on CFP in these two different contexts. Later, in line with the findings of Crisóstomo et al. (2011), Duque-Grisales and Aguilera-Caracuel (2021) also provided evidence of the negative relationship between ESG actions and CFP in the Latin American context. Using an extensive sample of Multinational companies from Brazil, Chile, Colombia, Mexico, and Peru, the authors demonstrated a negative impact of ESG performance on accounting-based financial performance between 2011 and 2015. To deepen the understanding of this negative association, they conducted the study using separate ESG performance measures of the three dimensions and found the same results for each dimension.

The existing set of literature about the ESG CFP relationship has produced mixed and controversial results (Bodhanwala & Bodhanwala, 2018; Garcia & Orsato, 2020). While most ESG CFP literature indicates a positive relationship in developed countries, the presented findings reflect a mixed view of ESG practices in developing countries.

4.2. Factors influencing the ESG CFP relationship:

The complicated relationship between ESG and CFP in developing countries instigated studies to further understand its sensitivity to external factors. The reviewed articles studying mediating factors tend to focus on geographic and ownership characteristics of sample firms.

Garcia and Orsato (2020) investigated whether institutional weakness can affect the ESG CFP relationship by comparing corporations from developing and developed countries. Their results showed a significant effect of institutional weakness on ESG performance in developing countries. Hence, Garcia and Orsato's results provide an essential insight into the roots of the difference in ESG practices between developed and developing countries by suggesting a potential impact of capital market regulators' weakness in developing countries.

Some studies also investigated whether involving a third party in the ESG reporting process affecting the economic benefits of the disclosure. Specifically, two studies explore the effect of having a third party guarantee the report content (Caglio et al., 2020) and its involvement when creating the report (Garzón Jiménez & Zorio-Grima, 2021). Caglio et al. showed that third party assurance acts as a significant factor influencing the relationship between ESG disclosure and its economic benefits in South Africa. These conclusions are in line with the findings of Martínez-Ferrero and García-Sánchez (2017) who concluded that sustainability reports reduce the firm's Cost of Equity (CoE) more considerably when audited by a Big Four firms. In the same line of research, Garzón Jiménez and Zorio-Grima (2021) concluded that ESG data assurance significantly reduces firms Cost of Equity and improves its CFP in Latin American developing countries. These conclusions support the underlying assumption that investors are still showing wariness from corporate ESG data in developing countries.

On the other hand, a recent study by Duque-Grisales and Aguilera-Caracuel (2021) provided evidence of a positive effect of international diversification on the ESG CFP relationship with firms in developing countries. In concrete, international companies' boards acquire more knowledge from their diversification and are therefore more likely to take proactive actions toward the environment, resulting in a more positive impact on CFP (Brulhart et al., 2019). The effect of the availability of financial resources has also been investigated by Duque-Grisales and Aguilera-Caracuel. The authors demonstrated that having a surplus of financial resources inverts the negative ESG CFP relationship and increases market performance. In light of these results, some investors in developing countries may still perceive allowing cash flows for ESG actions as a non-essential practice that can only be done when additional funds are available.

4.3. ESG Disclosure in Developing Countries

Over the past two decades, ESG reporting has significantly gained importance, especially for companies with a high impact on their environment and stakeholders. To promote corporate ESG reporting, many reporting frameworks have been designed and subsequently updated by international organizations over the last decade, e.g., the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC). These reporting frameworks are recently being adopted by capital market regulators as a basis for elaborating mandatory ESG reports. To keep up with this trend, public companies have made significant progress towards improving their reporting quality to better comply with this new type of regulations (Wasiuzzaman & Mohammad, 2020).

Most studies from our collection discuss the impact of Board characteristics on ESG disclosure. Wasiuzzaman and Mohammad (2020) revealed an improvement in the level of ESG transparency after women’s participation in corporate board meetings. The authors explained that this effect might result from women being more risk and ambiguity averse. Hence, their participation in board meetings might lead to more decisions to reduce information asymmetries, including the improvement of ESG disclosure. In Argentina, Brazil, Mexico and Chile, Board cultural diversity has also proven to positively impact the level of company sustainability engagement (Martinez-Ferrero et al., 2021), eventually leading to better ESG disclosure. Another recent study by Arayssi et al. (2020) on firms from the MENA region showed a positive impact of female board members and independent board members on ESG transparency.

For investors, Chauhan and Kumar (2018) suggested that ESG disclosure tends to have more value in developing countries given the absence of solid investor protection. They explained that ESG reports play a significant role in clarifying financial reports' opacity and facilitate firm analysis. A second study of Indian firms by Chauhan and Kumar (2019) showed a lower recognition of this disclosure from domestic investors, confirming the different interest in ESG between developed and developing countries.

Given the lack of ESG transparency in developing countries, improving ESG disclosure is essential for improving society and investors trust in corporations. For this purpose, corporations in developing countries may refer to internationally recognized frameworks that contribute to their transparency (Kolk & Perego, 2010) and guarantee compliance with the highest standards of ESG reporting. Foreign investors are increasingly developing their interest for reliable ESG data in developing countries. Hence, improving ESG disclosure in developing countries may represent a crucial factor for attracting foreign capital flows and ensure continuing growth and economic development.

4.4. ESG and Firm Risk

Another line of research within the reviewed literature presents evidence of the relationship between ESG actions and firm risk in developing countries (Byun, 2018; Fu et al., 2020; Harjoto & Laksmana, 2018). The rationale behind investigating this topic, especially in developing countries where firms face many operational uncertainties, is the potential of ESG actions to reduce this risk and consequently improve CFP (Yu et al., 2018).

A practical limitation to evaluating corporate ESG actions effect on firm risk is the lack of reliable quantitative metrics. Notwithstanding this limitation, Nitescu and Cristea (2020) interestingly revealed a growing interest from financial institutions in Romania to incorporate ESG-related risk policies in corporate strategy. In times of crises, Broadstock et al. (2021) suggest that ESG actions act as an essential factor mitigating firm risk, reducing stock volatility, and giving a strong signal to investors. Broadstock et al. also highlighted the prominence of the environmental and governance dimensions in improving firm resilience in times of crisis. Interestingly, they show that this risk reduction effect is less significant in regular times, thus confirming the critical role of ESG actions for firms facing high levels of risk.

Studying the opposite relationship, Garcia et al. (2017) suggested that the impact of firm risk level on ESG performance might follow an inverted U-shape curve. In other words, there might be a maximum level of risk that legitimizes ESG actions. Beyond this level, the relationship turns negative according to the authors.

While academics have extensively addressed ESG performance and its relationship with firm risk in developed countries, it remains clear that this theme is still under-researched in developing countries where firms are facing higher levels of risk.

5. Research gaps:

To add up and contribute to expanding the literature about the ESG CFP relationship in developing countries, we identified research gaps within the reviewed articles that may be subject to future research. These research gaps were either explicitly mentioned in the articles or identified by the review authors. This section details the potential research patterns for each identified gap.

5.1. Explanatory causes of the ESG CFP relationship:

The existing body of work around ESG and CFP mainly focuses on explaining the direction of the relationship without getting to its causes (Grewatsch & Kleindienst, 2017). The focus on the direction of the ESG CFP relationship in developing countries has left room for a fertile array of research focusing on the underlying causes. Given the complexity of the ESG CFP relationship, many factors must be considered to deepen its understanding in developing countries. For this purpose, future researchers are encouraged to study the causes explaining the negative or positive association between ESG and CFP. For example, it may be of interest to investigate whether the cultural differences between developed and developing countries act as a strong factor influencing the direction of the relationship.

5.2. ESG and CFP in the MENA region:

Another noticeable characteristic of the reviewed set of articles is the lack of studies investigating ESG and CFP in the MENA region. Specifically, the article collection comprises a single study conducted in the Egyptian context (Aboud & Diab, 2019). It is also of interest to note that the study of Arayssi et al. (2020) in 7 Middle East countries did not address the ESG CFP relationship as the main discussion. The lack of interest in the ESG CFP relationship in the MENA region may be attributed to factors such as the lack of ESG disclosure and the significant gap in North African capital market liquidity compared to other developing countries like China and South Africa. This may represent a notable limitation facing future research in these countries, leading to more difficulty gathering reliable financial and ESG data.

Numerous ESG-related topics remain not yet covered in this region. Future research in the MENA region is encouraged investigating the direction of the ESG CFP relationship. Research could further identify the explanatory causes driving the relationship in the context of this specific region. Sound evidence of the ESG CFP relationship in the MENA region might have important

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practical implications for companies willing to integrate ESG in their corporate actions. Moreover, with the increasing interest from foreign investors in the MENA region over the last decade, research around ESG and CFP may represent an important source of insights into the cultural standpoint on ESG in this specific region.

5.3. The effect of mandatory ESG regulation:

In developing countries, regulators are becoming increasingly sensitive to the importance of corporate ESG disclosure. Consequently, several measures to ensure transparent corporate extra-financial communication has recently been implemented by capital market regulators. As one of the most recent examples from the MENA region, the Moroccan capital markets authority recently made the issuance of ESG reports mandatory for all listed companies in the Casablanca Stock Exchange. The purpose of these new initiatives is to improve corporate ESG transparency and remedy the lack of ESG data for investors. Hence, mandatory ESG regulation may represent a significant factor influencing the ESG CFP relationship.

We identified a single article addressing ESG regulation in the Chinese context, but not as the main discussion (Weber, 2014). Weber (2014) showed that corporations strongly react to the introduction of ESG disclosure guidelines by Chinese regulators. The impact of this new regulation on the ESG CFP relationship was not investigated in the study.

With the tightening regulation around ESG in developing countries, researchers can expect more ESG data available to conduct their studies. Researchers are therefore encouraged utilizing this data to investigate the effect of ESG regulations on the relationship with CFP in developing countries. Furthermore, researchers could determine whether these new emerging regulations enhance trust in corporate ESG practices resulting in a better performance.

5.4. The effect of lagged ESG performance:

The timelapse in which ESG performance starts affecting CFP might also be interesting to investigate. Most corporate ESG reports are available at the period end, along with periodic financial reports. These reports provide more information about past ESG performance than anticipated actions. Due to this lag, same-year ESG performance might not impact market financial performance as much as previous ESG performance.

From a corporate point of view, ESG actions are generally intended to improve financials over the long term (Vitolla et al., 2019). For example, the installation of environment-friendly equipment may lead to reduced economic costs through savings from water, energy and waste reduction (Hebb et al., 2010) and, as a result, to a higher level of profitability. These reduced economic costs are expected over the long-term rather than instantly.

Therefore, the effect on CFP might not be observable until after a period of time.

After screening the article collection for studies investigating the effect of lagged ESG performance on CFP, we surprisingly find no study discussing the topic. The effect of lagged ESG performance on CFP is far from clear and may be subject to fruitful research in developing countries. In line with previous studies (Chen & Wang, 2011; Conca et al., 2021; Gao & Han, 2020; Siew, 2012) conducted in developed countries, future research in developing countries is encouraged to explore the impact of prior year ESG metrics on next year financial results.

6. Limitations to ESG studies in developing countries:

ESG studies still face limitations that must be considered in future studies involving developing countries. First, the measurement of ESG performance is one of the most controversial topics in ESG literature. In fact, the mixed results in the ESG CFP literature may be partly attributed to the lack of a conventional way to measure ESG performance (Lee et al., 2016; Waddock & Graves, 1997). Hence, it is appropriate to emphasize an essential difference between the meanings of the ESG performance measures used in the reviewed studies.

A closer look at ESG CFP studies reveals the dominance of a handful of ESG data providers. Within the review collection, the majority of papers refer to the Bloomberg ESG score. However, attention should be drawn to the exact type of ESG performance reflected by this score: the Bloomberg ESG score measures the amount of ESG data provided by a company in its report. Hence, the Bloomberg ESG score is a measure of ESG disclosure (Yu et al., 2018) and does not necessarily reflect the company's actual ESG performance. Hence, this first limitation induced by the heterogeneous nature of ESG metrics must be taken into account when conducting further research.

Second, the lack of reliable ESG data is an important limitation for researchers. A notable cause may be the lack of regulation around ESG disclosure which has started tightening until quite recently. It is of interest to note that this limitation applies to a handful of developing countries where firms are not yet followed by ESG rating agencies.

Despite the growing interest in ESG in developed and developing countries, the adopted ESG metrics remain arguably subjective and may not reflect the actual impact of corporate sustainability practices in some studies. The review does not address this issue as a research gap but more of a limitation to future studies in the field. To overcome these limitations, future researchers are encouraged to work on a standardized approach for measuring corporate ESG performance in developing countries.

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7. Conclusion

ESG factors have gained increasing interest over the last decade due to globally rising sustainability issues. For companies, sustainability engagement may require significant investment needs for environment-friendly equipment and processes. Such strategical implications raise the question of the impact of ESG actions on CFP. Therefore, a major part of ESG literature has concentrated on studying this link from different angles. However, the ESG CFP literature mainly focused on studying the relationship in the context of developed countries (Garcia et al., 2017; Garzón Jiménez & Zorio-Grima, 2021; Yoon et al., 2018). The present review aims to bring out a fragment of the ESG CFP literature addressing developing countries.

Using a rigorous, replicable approach, we collected 32 articles from the Social Sciences Citation Index available on the Web of Science database. After analyzing the collected articles by reading the full text, we highlighted empirical evidence around four facets of the ESG CFP relationship in developing countries: (i) the direction of the ESG CFP relationship in developing countries, (ii) factors influencing the ESG CFP relationship, (iii) ESG disclosure in developing countries, and (iv) ESG and firm risk. While most studies around show a positive impact of ESG performance on CFP in developing countries (Friede et al., 2015), the evidence emerging from the reviewed literature remains fragmented for developing countries. Further research is needed to deepen the understanding of this complex relationship, taking into account developing countries' socioeconomic features.

This review also revealed four research gaps around the ESG CFP relationship in developing countries: (i) explanatory causes of the ESG CFP relationship, (ii) ESG and CFP in the MENA region, (iii) the effect of mandatory ESG regulation, and (iv) the effect of lagged ESG performance. Future researchers are thus encouraged to put more emphasis on these gaps when expanding the ESG CFP literature for developing countries.

Moreover, this review has discussed two limitations to ESG studies in developing countries. First, we emphasized the heterogeneity of adopted ESG metrics in the reviewed studies. The aim of highlighting this constraint is to draw attention to its potential effect of bias on future studies. The second limitation to ESG research in developing countries highlighted by the present work is the poor availability of data. However, it is interesting to note that more ESG information is likely to be available for researchers in the future given the tightening of regulations around corporate ESG disclosure.

The identified characteristics of the ESG CFP literature in developing countries reveal promising research patterns for researchers willing to deepen the understanding of sustainability engagement in developing countries. Research around this complex phenomenon in developing countries is likely to grow at a higher rate than the last decade thanks to the growing interest of academics and the increasing availability of ESG data. From a broader perspective, strong ESG engagement from corporations and society holds the potential to ensure healthy growth for developing countries and enhance their socioeconomic resilience to crises and disasters.

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